



REVIEW OF INDEPENDENT AUDITS OF
FIRE PROTECTION DISTRICTS
IN GREENE COUNTY

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-04
January 20, 2000

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

January 2000

The annual review of audits of fire protection districts in Greene County has been completed. This review covered reports for the years ended December 31, 1998 that were required to be submitted to the State Auditor's office within six months after the year end.

The state auditor is required by law to review the audit reports of every Greene County fire protection district with annual revenues in excess of \$50,000. Eight of the 11 districts in the county fall into this category. The other districts submitted unaudited financial reports.

This report includes information about the district's revenues, expenditures, and balances, and summarizes comments made by the various districts' independent auditors including recommendations for improving accountability and management of finances.

Copies of the audit are available upon request.

YELLOW SHEET

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION
DISTRICTS IN GREENE COUNTY

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CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Mel Carnahan, Governor
and
Members of the General Assembly
and
Boards of Directors of Fire Protection
Districts in Greene County

We have conducted a special review of independent audits of the fire protection districts in Greene County as required by Section 321.690, RSMo 1994. The purposes of this review were to:

1. Evaluate the impact of statutory audit requirements and State Auditor's regulations on the effectiveness of financial reporting and auditing for fire protection districts in Greene County.
2. Assess the degree of compliance by these districts with statutory audit requirements and the State Auditor's regulations.
3. Bring to the attention of the various fire districts and independent auditors any specifically identifiable reporting deficiencies which should be taken into consideration and corrected in future audit reports.
4. Summarize and evaluate the financial data presented for the various fire districts.

Section 321.690, RSMo 1994, requires all fire protection districts with revenues in excess of \$50,000 annually to cause an audit to be performed on a biennial basis. For those districts with annual revenues of less than \$50,000, the State Auditor may exempt the district from the audit requirement if the appropriate reports are filed.

For those districts for which an audit is required, the district must file a copy of the completed audit report and management letter with the State Auditor within six months after the close of the fiscal year. The audit reports and management letters are reviewed to determine that they are prepared according to guidelines contained within the Code of State Regulations (CSR) (Section 15 CSR 40-4). Any weaknesses noted during the review are communicated to the districts by letter. Should the weaknesses be of a serious enough nature to require the report to be amended, the district is granted a ninety-day period from the date of notification by the State Auditor to correct the report. The State Auditor accepted all of the required audit reports that were received for the year(s) ended December 31, 1998.

During our review, we considered Section 321.690, 1994 and 15 CSR 40-4 (which are presented in Appendices B and C), and audit reports and other financial information submitted to

the State Auditor by the various fire districts for the year(s) ended December 31, 1998. Because some data presented in the schedules and appendices was compiled from information submitted by the various fire districts and their independent auditors and was not verified by us via additional audit procedures, we express no opinion on the schedules and appendices.

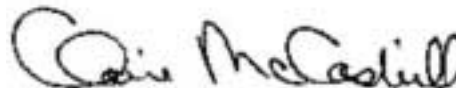
Our review was limited to the specific matters described above and was based on procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

Some problems were noted in our review of the fire protection districts' audit reports and the compliance deficiencies are summarized on Schedule 4. The problems noted included, failure to submit the audit report to the State Auditor's office (SAO) by June 30, 1999, failure to submit engagement letters to the SAO, failure to notify the SAO of entrance and exit conferences, lack of complete and adequate footnote disclosures, failure to include needed comments and recommendations in management letters, failure to include follow up action on prior year's findings, failure to include required schedules in the audit reports, and failure to conduct the audit in accordance with generally accepted governmental auditing standards (GAGAS).

To better determine the quality of the fire district audits, we reviewed the supporting working papers of various independent auditor reports for the year(s) ended December 31, 1998. The information contained in the working papers constitutes the principal record of work the auditor has accomplished and provides evidence for conclusions that he has reached concerning significant matters. Generally Accepted Governmental Auditing Standards (GAGAS) require that a written record of the auditor's work be retained. However, some auditor's working papers need to be improved in this area.

As shown in Appendix A, independent auditors made a few specific recommendations to improve the overall management of fire districts. Recommendations included concerns regarding budgets and overall policies and procedures. Each fire district should review all recommendations and the applicability to their individual district. Consideration should be given by individual districts to have their independent auditor review any areas where risk and citizen concern may be evident.

This is the fifth review the State Auditor's office has performed of the Greene County fire protection districts' reports and many improvements have been noted. It appears that the fire protection districts, on the whole, are working to improve the quality of their financial reporting. We solicit from the readers of this report any suggestions for changes or requests for other new information which may be of benefit to those involved with the Greene County fire protection districts.



Claire McCaskill
State Auditor

November 23, 1999 (fieldwork completion date)

SCHEDULES

Schedule 1

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES, AND BALANCES

		Year Ended December 31,							
		1997				1998			
District		Beginning Balance	Revenues	Expenditures	Ending Balance	Adjustments (Note 2)	Revenues	Expenditures	Ending Balance
Ash Grove	\$	5,068	59,274	56,109	8,233		39,955	41,267	6,921
Battlefield		892,585	614,934	448,236	1,059,283		679,375	334,582	1,404,076
Bois D'Arc		3,534	19,807	20,739	2,602		25,906	21,390	7,118
Brookline		124,781	115,248	79,512	160,517		123,189	124,519	159,187
Ebenezer		61,909	76,018	64,891	73,036		87,643	86,368	74,311
Fair Grove		16,068	49,103	46,980	18,191	51,241	69,738	51,712	87,458
Logan-Rogersville		345,848	422,164	419,180	348,832		464,201	334,940	478,093
Strafford		143,769	141,724	117,975	167,518		165,975	144,134	189,359
Walnut Grove		3,471	53,707	52,462	4,716			(Note 1)	
West Republic		1,902	33,638	30,649	4,891		37,020	37,219	4,692
Willard		347,747	169,918	297,788	219,877	10,111	204,432	165,762	268,658
	\$	1,946,682	1,755,535	1,634,521	2,067,696	61,352	1,897,434	1,341,893	2,679,873

The accompanying Notes to the Schedules are an integral part of this schedule.

Schedule 2

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY
 SCHEDULE OF GENERAL FIXED ASSETS

District	December 31, 1998			December 31, 1997
	Land and Buildings	Furniture and Equipment	Total	Total
Battlefield	\$ 634,030	843,551	1,477,581	1,450,040
Brookline	21,576	235,664	257,240	138,627
Ebenezer	111,733	243,322	355,055	326,241
Logan-Rogersville	353,703	1,030,813	1,384,516	1,364,973
Strafford	235,657	236,003	471,660	441,421
Walnut Grove		(Note 1)		6,024
Willard	317,590	606,918	924,508	892,588
	\$ 1,674,289	3,196,271	4,870,560	4,619,914

The accompanying Notes to the Schedules are an integral part of this schedule.

Schedule 3

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY
 SCHEDULE OF ASSESSED VALUATIONS AND TAX LEVIES
 YEARS ENDED DECEMBER 31, 1998 AND 1997

District	Assessed Valuation		Tax Levy Per \$100 of Assessed Valuation	
			General	
	1998	1997	1998	1997
Ash Grove	\$ 14,482,067	14,109,084	0.27	0.26
Battlefield	227,771,730	219,431,561	0.27	0.26
Bois D'Arc	11,315,355	10,906,018	0.20	0.20
Brookline	42,644,953	40,949,799	0.27	0.28
Ebenezer	56,812,303	55,438,516	0.15	0.14
Fair Grove	31,409,564	30,311,976	0.20	0.20
Logan-Rogersville	171,800,807	160,021,850	0.26	0.26
Strafford	60,540,847	56,426,905	0.25	0.24
Walnut Grove	19,123,092	19,205,076	0.30	0.30
West Republic	12,614,052	12,328,932	0.28	0.27
Willard	64,137,916	61,686,123	0.27	0.26

The accompanying Notes to the Schedules are an integral part of this schedule.

Schedule 4

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY
SUMMARY OF COMPLIANCE DEFICIENCIES NOTED CONCERNING 15 CSR 40
YEAR(S) ENDED DECEMBER 31, 1998 AND 1997

Description of Deficiencies	Title	Number of Errors	Number of Applicable Reports	Percent
Engagement letter was not submitted to the State Auditor.	15 CSR 40-4.010	5	7	71%
Audit report was not submitted by June 30, 1999.	15 CSR 40-4.010	1	7	14%
Notification of entrance and exit conference was not submitted to the State Auditor.	15 CSR 40-4.020	5	7	71%
Audit was not performed in accordance with GAGAS.	15CSR 40-4.030	1 *	7	14%
Some needed comments and recommendations were not included in a management letter.	15 CSR 40-4.030	3 **	7	43%
Follow-up to prior management letter was not included in the report.	15 CSR 40-4.030	1	4 (1)	25%
Appropriate footnote disclosures were not included.	15 CSR 40-4.030	2 ***	7	29%
Some required report schedules were not included.	15 CSR 40-4.020	1 ****	7	14%

* The audit report did not include a report on internal control or compliance with laws and regulations.

** A problem noted that apparently should have been reported in a management letter included overspending the budget.

*** Although the audit reports contained most of the necessary footnotes, we noted deficiencies regarding appropriate footnote disclosure of budgetary practices, and changes in general fixed assets.

**** Some of the schedules missing include a schedule of tax rates and assessed valuation, schedule of insurance in force, and a schedule of principal officeholders and their compensation.

(1) Two districts did not have prior management recommendations and one district was not required to obtain an audit in the prior year.

The accompanying Notes to the Schedules are an integral part of this schedule.

NOTES TO THE SCHEDULES

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS
IN GREENE COUNTY
NOTES TO THE SCHEDULES

1. Significant Information

A. General

At December 31, 1998, there were eleven fire protection districts in Greene County. Districts are required to have biennial audits performed if revenues exceed \$50,000, or file a financial statement if revenues are less than \$50,000.

Upon completion of the audit, copies of the report and management letter are to be submitted to the State Auditor for review. Seven audits and three financial statements have been received as follows:

1. The Battlefield, Ebenezer, Fair Grove, Strafford, and Willard Fire Protection Districts obtained audits for the year ended December 31, 1998. Each of these districts, except Fair Grove, previously obtained audits for the year ended December 31, 1997. The Fair Grove Fire Protection District was not required to obtain an audit for the year ended December 31, 1997 because their revenues were less than \$50,000 for that year. The Brookline and Logan-Rogersville Fire Protection District obtained audits for the two years ended December 31, 1998.
2. The Walnut Grove Fire Protection District obtained an audit for the two years ended December 31, 1997. This district plans to obtain an audit for the two years ended December 31, 1999. No information is presented in this report for the year ended December 31, 1998.
3. The Ash Grove, Bois D'Arc and West Republic Fire Protection Districts were not required to obtain audits. Information presented in this report for the year ended December 31, 1998, was obtained from unaudited information provided by these districts. Information presented for the year ended December 31, 1997, for these districts and the Fair Grove Fire Protection District was previously obtained from unaudited financial statements.

B. Schedules

Information included in these schedules was compiled from the audit reports, management letters, and unaudited financial statements received from the Greene County fire protection districts.

In analyzing these schedules, some disparity will result due to the different methods of presenting essentially the same information.

Reasons for some problems in comparison are:

1. The financial statements of the Battlefield, Brookline, Ebenezer, Fair Grove, Logan-Rogersville, Strafford, and Willard Fire Protection Districts are presented on the modified accrual basis of accounting in accordance with generally accepted accounting principles. The ending balances represent assets net of liabilities. Revenues are recognized in the fiscal period in which they become available and measurable. Expenditures are recognized in the fiscal period in which the related liability is incurred.
2. The financial statements of the Ash Grove, Bois D'Arc and West Republic Fire Protection Districts are presented on a cash basis of accounting. The ending balances represent cash balances. Revenues are recognized when received in cash and expenditures are recognized when disbursed in cash.

The schedules presented are as follows:

Schedule 1 presents revenues, expenditures, and fund balance for the General Fund in a combined format. The General Fund is the general operating fund of each district and is used to account for all operating resources.

Schedule 2 presents the general fixed asset balances of the districts at December 31, 1998, with comparative totals of general fixed assets at December, 31 1997. The fire protection districts that are presented are only those which obtained an audit. However, the Fair Grove Fire Protection District's audit report did not include a schedule of general fixed assets.

Schedule 3 presents the assessed valuations of the individual fire protection districts as well as tax levies. Immaterial differences were noted in the assessed valuations presented in the audit reports and the amounts submitted by the districts to the State Auditor's office. In addition, in 1997 and 1998, Walnut Grove Fire Protection District levied .03 and .01, respectively, in excess of the levies approved by the State Auditor's office. In 1997 and 1998, the Fair Grove Fire Protection District levied .02 and .01, respectively, in excess of the levies approved by the State Auditor's office. In 1997, Bois D'Arc and Brookline Fire Protection Districts levied .01 in excess of amounts approved by the State Auditor's office.

Schedule 4 is a listing of deficiencies noted regarding compliance with State Auditor's regulation 15 CSR 40.

C. Method of Accounting

All of the districts' operations are accounted for in the General Fund, which is a governmental type fund. As described in Note 1.B., the districts use various methods of accounting for their General Funds.

For those districts which have obtained audits, except Fair Grove, all fixed assets acquired or constructed for general governmental purposes are reported as expenditures in the General Fund and are capitalized in the General Fixed Assets Account Group. Purchased fixed assets are capitalized at historical cost or at estimated historical cost if actual historical cost is not available.

Depreciation is usually not provided on general fixed assets; however, the Brookline and Logan-Rogersville Fire Protection districts did provide for depreciation over the useful lives of the general fixed assets. The total accumulated depreciation through December 31, 1998, was \$115,125 for the Brookline Fire Protection District and \$903,376 for the Logan-Rogersville Fire Protection District.

2. Audit Adjustments

Audit adjustments were made to the ending balances for the Fair Grove and Willard Fire Protection Districts at December 31, 1997.

The adjustment for the Fair Grove Fire Protection District was to change from a cash basis of accounting to the modified accrual basis of accounting. The adjustment for the Willard Fire Protection District was to increase property taxes receivable to include railroad and utility taxes.

3. Independent Audits

For the year(s) ended December 31, 1998, three independent auditors each performed one audit, and two independent auditors each performed two audits.

4. Compensation Of Directors

The independent audit reports included the names of the principal officeholders during the year ended December 31, 1998 and 1997, and the compensation received by each official in the performance of his or her duty as established by Section 321.190, RSMo 1994. The districts have three-member boards of directors, except the Brookline and Willard Fire Protection District have five-member boards. When more than three or five names were listed, it was due to a change in the officials serving on the board.

The following is a list of total compensation paid to directors by each district which was audited, except the Fair Grove Fire Protection District.

<u>District</u>	<u>Total Compensation Paid</u>	
	<u>1998</u>	<u>1997</u>
Battlefield	\$ 5,730	6,250
Brookline	0	0
Ebenezer	0	0
Logan-Rogersville	3,600	4,475
Strafford	5,150	4,450
Walnut Grove	(Note 1)	0
Willard	1,000	1,000

APPENDICES

Appendix A

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY SUMMARY OF MANAGEMENT LETTER COMMENTS ISSUED BY AUDITORS IN CONNECTION WITH THE AUDITS OF THE YEAR(S) ENDED DECEMBER 31, 1998

The following is a summary of the various comments contained in those management letters received by the State Auditor for audits of the year(s) ended December 31, 1998. These comments apply to one fire protection district unless otherwise noted. The comments extracted from the management letters were not verified by the State Auditor's office via additional audit procedures for accuracy, validity, or completeness.

Budgets

- * A district did not present the projected fund balance on the budget.
- * A district's budget did not include revenues.

Policies and Procedures

- * A district should extend the bid process to include documentation of the actual bids as an attachment to the invoices where goods were purchased.
- * A district should improve the filing of expenditure documentation to facilitate the location of invoices at any time.
- * A district should include in the formal minutes of board of director meetings the actual calculation of Fireman's Fund payments to firefighters.
- * A district should consider moving the entire accounting system to the computer program used for payroll.

Appendix B

321.690. 1. In counties of the first classification having a charter form of government and having more than nine hundred thousand inhabitants and in counties of the first classification which contain a city with a population of one hundred thousand or more inhabitants which adjoins no other county of the first classification, the governing body of each fire protection district shall cause an audit to be performed consistent with rules and regulations promulgated by the state auditor.

2. (1) All such districts shall cause an audit to be performed biennially. Each such audit shall cover the period of the two previous fiscal years.

(2) Any fire protection district with less than fifty thousand dollars in annual revenues may, with the approval of the state auditor, be exempted from the audit requirement of this section if it files appropriate reports on its affairs with the state auditor within five months after the close of each fiscal year and if these reports comply with the provisions of section 105.145, RSMo. These reports shall be reviewed, approved and signed by a majority of the members of the governing body of the fire protection district seeking exemption.

3. Copies of each audit report must be completed and submitted to the fire protection district and the state auditor within six months after the close of the audit period. One copy of the audit report and accompanying comments shall be maintained by the governing body of the fire protection district for public inspection at reasonable times in the principal office of the district. The state auditor shall also maintain a copy of the audit report and comment. If any audit report fails to comply with the rules promulgated by the state auditor, that official shall notify the fire protection district and specify the defects. If the defects specified are not corrected within ninety days from the date of the state auditor's notice to the district, or if a copy of the required audit report and accompanying comments have not been received by the state auditor within six months after the end of the audit period, the state auditor shall make, or cause to be made, the required audit at the expense of the fire protection district.

4. The provisions of this section shall not apply to any fire protection district based and substantially located in a county of the third classification with a population of at least thirty-one thousand five hundred but not greater than thirty-three thousand.

Title 15—ELECTED OFFICIALS

Division 40—State Auditor Chapter 4—Audits of Fire Protection Districts in St. Louis and Greene Counties

15 CSR 40-4.010 Requirements for Districts

PURPOSE: *The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule sets forth requirements to be met directly by the district.*

(1) The district is responsible for preparing and providing financial information to be included in the audit report. The district shall maintain adequate accounting records for that purpose. These records may be maintained on the bases of accounting deemed appropriate by the district but the records shall provide adequate information to allow the district to report in accordance with generally accepted accounting principles.

(2) The district shall engage an independent auditor to conduct the audit. The state auditor does not recommend, select or approve the district's auditor or the auditor's fee, except as provided in 15 CSR 40-4.010(4). The district is responsible for fulfilling all contractual obligations with the auditor, including payment of all earned fees.

(3) The district shall require from the independent auditor an engagement letter which sets out all essential particulars. A copy of the engagement letter shall be submitted to the state auditor for his/her review before commencement of audit fieldwork. The purpose of this review is to provide reasonable assurance that the district has contractually committed an auditor to provide services to satisfy requirements of 15 CSR 40-4. The contents of this letter should include, but are not limited to:

(A) Period for which the financial statements are audited;

(B) Purpose of the audit;

(C) Scope of the audit, including consideration of the internal control structure and tests of compliance with applicable laws and regulations;

(D) Provisions that the auditor will communicate, in writing, to the district material weaknesses or reportable conditions in the internal control structure, instances of non-compliance with applicable laws and regulations and other areas of possible improvement;

(E) Provision that all workpapers, etc., will be made available to the state auditor for his/her review upon his/her request;

(F) Provision that the auditor will comply with applicable rules issued by the state auditor under 15 CSR 40;

(G) Provision that the auditor will discuss with the district any factors s/he may discover which would prevent him/her from issuing an unqualified opinion on the financial statements and allow the district and the auditor the opportunity to arrive at a resolution acceptable to both;

(H) Statement of the auditor's responsibility for detection of errors, irregularities and illegal acts; and

(I) The estimated cost of the audit and the rates which are the basis for that estimate.

(4) The district must file a copy of the completed audit report with the state auditor within six (6) months after the close of the audit period. If any audit report fails to comply with promulgated rules, the state auditor will notify the district and specify the defects. If the specified defects are not corrected within ninety (90) days from the date of the state auditor's notice to the district, or if a copy of the required audit report has not been received by the state auditor within the specified time, the state auditor will make, or cause to be made, the required audit at the expense of the district.

*Auth: section 321.690, RSMo (Cum. Supp. 1993). * Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

**Original authority 1977, amended 1981, 1986, 1991, 1993.*

15 CSR 40-4.020 Standards for Auditing and Financial Reporting

PURPOSE: *The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule sets forth standards for the auditing and financial reporting of the district.*

(1) The independent auditor shall meet all requirements of Chapter 326, RSMo. The auditor must be able to demonstrate that s/he meets the independence criteria contained in the code of professional ethics and rules of conduct promulgated by the Missouri State Board of Accountancy.

(2) The independent auditor shall provide to the state auditor reasonable notification of any entrance or exit conferences held with the district. This notification shall be sufficiently

in advance to allow the state auditor to attend the entrance or exit conference at his/her discretion. Upon request, the independent auditor shall provide a draft copy of the audit report and management letter to the state auditor prior to the exit conference.

(3) The audit shall conform to the standards for auditing of governmental organizations, programs, activities and functions as established by the comptroller general of the United States.

(4) The financial statements, supplementary data and accompanying notes shall be presented in conformity with generally accepted accounting principles.

*Auth: section 321.690, RSMo (Cum. Supp. 1993). * Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

**Original authority 1977, amended 1981, 1986, 1991, 1993.*

15 CSR 40-4.030 Contents of Audit Reports

PURPOSE: *The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule describes required and suggested information to be included in the audit reports.*

(1) Standards for auditing and financial reporting of fire protection districts are given in 15 CSR 40-4.020.

(2) All audit reports shall contain:

(A) A table of contents;

(B) A report on the financial statements;

(C) Combined financial statements and appropriate note disclosures;

(D) Other financial information which includes, but is not limited to, the following:

1. Supplemental schedule of expenditures/expenses by object, if not included in the financial statements;

2. Tax rates and assessed valuation;

3. Schedule of insurance in force which shall include, in addition to other information, the agent for each policy; and

4. Principal officeholders who held office during the period under audit, compensation received by each official in performance of his/her duty and all other compensation or reimbursement of expenses made by the district to each officeholder; and

Appendix C

(E) A report on the consideration of the internal control structure, a report on the tests of compliance with applicable laws and regulations and a management letter communicating areas of possible improvement not otherwise reported. The required scope of audit for the reports and management letter is set forth in 15 CSR 40-4.040(3). The reports and management letter shall include the findings and recommendations, if any, which the auditor developed during his/her audit and the district's responses to those findings and recommendations. The reports and management letter shall also indicate the nature of previous recommendations and the extent to which the district has implemented those recommendations.

(3) If the district or the auditor deems it appropriate, audit reports may contain or utilize the following:

(A) A history and organization section prepared by the district (unaudited);

(B) Comparative financial data for one (1) or more years; and

(C) Other statements, exhibits, schedules or analyses as deemed necessary or appropriate by the district or the auditor.

*Auth: section 321.690, RSMo (Cum. Supp. 1993). * Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

**Original authority 1977, amended 1981, 1986, 1991, 1993.*

15 CSR 40-4.040 Scope of Audit

PURPOSE: *The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule sets forth the scope of the audit.*

(1) Nothing in the rules promulgated for audits of fire protection districts shall be construed as restricting, limiting or relieving the independent auditor of his/her professional judgment or responsibility.

(2) The audit shall include those tests of the accounting records and other auditing procedures which the independent auditor considers necessary in the circumstances to conform to the standards for auditing of governmental organizations, programs, activities and functions as established by the comptroller general of the United States.

(3) As part of the audit described in section (2), the auditor will obtain an understanding of the internal control structure, assess control risk and report any material weaknesses or reportable conditions. The auditor will also test compliance with applicable laws and regulations and report all material instances of noncompliance. As a part of, or in addition to, audit tests or procedures which may be necessary for the audit, the auditor shall—

(A) Review systems, procedures and management practices, including:

1. Review cash management practices to the extent necessary to determine whether significant improvements appear practicable and economically justifiable;

2. Evaluate the purchasing function to the extent necessary to determine that the district generally receives fair value, for example, bidding of significant purchases; that purchases generally represent items consistent with the function of the district; and that there is not significant likelihood of misuse or misappropriation of the district's resources through the purchasing process;

3. Review fixed asset records and procedures to the extent necessary to determine that fixed assets are properly recorded, physically controlled and in the possession of the district;

4. Review fidelity bond coverages to determine that all persons with access to assets of the district appear covered in sufficient amounts;

5. Evaluate the budgeting practices to the extent necessary to determine whether significant improvements appear practicable and economically justifiable;

6. Review related party transactions;

7. Review evaluate other areas as required by the district; and

8. Review significant areas or matters which come to the attention of the auditor;

(B) The auditor will note areas of possible improvement in the district's systems, procedures and management practices. In evaluating district systems, procedures and management practices, the auditor should consider whether improvements appear practicable and economically justifiable.

(C) Test compliance with applicable laws and regulations, including:

1. Design the audit to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on the financial statements;

2. Be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements; and

3. Test compliance with other legal provisions as s/he deems necessary or appropriate in the circumstances.

(D) Legal provisions which the auditor should consider in his/her audit include, but are not limited to, the following:

1. Article III, Sections 38(a) and 39(3) and Article VI, Section 25, *Constitution of Missouri* limitations on use of funds and credit;

2. Article VI, Section 26, *Constitution of Missouri* limitations on indebtedness without popular vote;

3. Article VI, Section 29, *Constitution of Missouri* application of funds derived from public debts;

4. Article VII, Section 6, *Constitution of Missouri* penalty for nepotism;

5. Chapter 67, RSMo budgetary requirements;

6. Sections 70.210 to 70.230 and Section 432.070, RSMo contracts;

7. Section 105.145, RSMo annual report;

8. Chapter 105, RSMo conflict of interest;

9. Chapter 108, RSMo bond issues;

10. Chapter 321, RSMo fire protection districts;

11. Other applicable portions of the *Constitution of Missouri* and the *Missouri Revised Statutes*;

12. Applicable sections of *Code of State Regulations*; and

13. Other applicable legal provisions.

(4) The auditor shall report on the reviews and examinations required by this rule in a management letter as set forth in 15 CSR 40-4.030 (2)(E).

*Auth: section 321.690, RSMo (Cum. Supp. 1993). * Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

**Original authority 1977, amended 1981, 1986, 1991, 1993.*